

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 1012-04  
Bill No.: SCS for HB 276  
Subject: Credit and Bankruptcy; Property, Real and Personal; Civil Procedure; Insurance-  
Life; Funerals and Funeral Directors; Department of Insurance; Insurance -  
General; Marriage and Divorce; Estates, Wills and Trust; Property, Real and  
Personal  
Type: Original  
Date: May 6, 2015

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Bill Summary: This proposal exempts in bankruptcy proceedings life insurance proceeds for the burial of a family member, modifies insurance foreign investment limits, changes valuation of reserves for life insurance, and modifies provisions regarding qualified spousal trusts

**FISCAL SUMMARY**

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND				
FUND AFFECTED	FY 2016	FY 2017	FY 2018	Fully Implemented (FY 2019)
<b>Total Estimated Net Effect on General Revenue</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

ESTIMATED NET EFFECT ON OTHER STATE FUNDS				
FUND AFFECTED	FY 2016	FY 2017	FY 2018	Fully Implemented (FY 2019)
Insurance Dedicated	\$0	\$0	\$0	(\$363,729)
Insurance Examination	\$0	\$0	\$0	(\$86,324)
<b>Total Estimated Net Effect on <u>Other</u> State Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>(\$450,053)</b>

Numbers within parentheses: ( ) indicate costs or losses. This fiscal note contains 7 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS				
FUND AFFECTED	FY 2016	FY 2017	FY 2018	Fully Implemented (FY 2019)
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)				
FUND AFFECTED	FY 2016	FY 2017	FY 2018	Fully Implemented (FY 2019)
Insurance Dedicated				2.4
Insurance Examination				0.6
<b>Total Estimated Net Effect on FTE</b>	<b>0 FTE</b>	<b>0 FTE</b>	<b>0 FTE</b>	<b>3 FTE</b>

☐ Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$100,000 in any of the three fiscal years after implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS				
FUND AFFECTED	FY 2016	FY 2017	FY 2018	Fully Implemented (FY 2019)
<b>Local Government</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

## **FISCAL ANALYSIS**

### **ASSUMPTION**

#### **§§375.534, 375.1070, 375.1072, 375.1074, 375.1078**

Officials at the **Office of the State Courts Administrator** and the **Office of the State Treasurer** each assume no fiscal impact to their respective agencies from this proposal.

In response to similar legislation this year, HCS for HB 592, officials from the **Department of Insurance, Financial Institutions and Professional Registration** and the **Office of the Secretary of State** each assume the current proposal would not fiscally impact their respective agencies.

#### **§§376.365, 376.370, 376.380, 376.670**

In response to similar legislation this year, HCS for HB 70, officials from the **Department of Insurance, Financial Institutions and Professional Registration** state that the proposal will not become effective until at least 42 of the 55 National Association of Insurance Commissioners (NAIC) jurisdictions representing at least 75% of total U.S. direct premiums written have enacted similar legislation. Prior to the 2014 legislative session, seven states had adopted similar legislation. It is not anticipated that the legislation will achieve the required level of adoption until 2016 at the earliest. Additionally, the Valuation Manual allows for companies to phase in the required reserve changes over a three-year period after the effective date.

Because of the above circumstances, it is not anticipated that this legislation will have any fiscal impact to DIFP in the next three years. When the legislation becomes operational, the department will require additional FTE. A preliminary estimation for FY2019 would be that the department would need three new FTEs:

- 1 Insurance Financial Examiner at \$75,000 annually, ongoing.
- 1 Actuarial Analyst at \$75,000 annually, ongoing.
- 1 Actuary with ASA designation at \$100,000 annually, ongoing.

These individuals would all be reviewing the new models established by the insurance companies to try to verify the correct reserves are being established when the companies move to Principal Based Reserve (PBR) valuation. Currently, reserves are set using a standard formula. PBR allows the company to use its own models in determining the proper reserves needed for many complex products that have various elements such as interest earned on the product based on a standard interest index from the marketplace or certain guarantees for varying lengths of time for which the current formula does not adequately adjust.

ASSUMPTION (continued)

The expenses of these 3 FTE will be divided between the Insurance Dedicated Fund and the Insurance Examination Fund.

Officials at the **Office of the State Courts Administrator** and the **Office of the State Treasurer** each assume no fiscal impact to their respective agencies from this proposal.

\$456.950

Officials at the **Office of the State Courts Administrator** and the **Office of the State Treasurer** each assume no fiscal impact to their respective agencies from this proposal.

\$456.1-113

Officials at the **Office of the State Courts Administrator** and the **Office of the State Treasurer** each assume no fiscal impact to their respective agencies from this proposal.

\$513.430

Officials at the **Office of the State Courts Administrator** and the **Office of the State Treasurer** each assume no fiscal impact to their respective agencies from this proposal.

In response to a previous version, officials at the **Department of Insurance, Financial Institutions and Professional Registration** assume no fiscal impact from this proposal.

<u>FISCAL IMPACT - State Government</u>	FY 2016 (10 Mo.)	FY 2017	FY 2018	Fully Implemented (FY 2019)
<b>INSURANCE DEDICATED FUND</b>				
<u>Costs - DIFP</u>				
Salaries	\$0	\$0	\$0	(\$220,342)
Fringe Benefits	\$0	\$0	\$0	(\$112,385)
Equipment and Expense	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>(\$31,002)</u>
<u>Total Costs - DIFP</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>(\$363,729)</u>
FTE Change - DIFP	0 FTE	0 FTE	0 FTE	2.4 FTE
<b>ESTIMATED NET EFFECT ON INSURANCE DEDICATED FUND</b>	<b><u>\$0</u></b>	<b><u>\$0</u></b>	<b><u>\$0</u></b>	<b><u>(\$363,729)</u></b>
Estimated Net FTE Change on the Insurance Dedicated Fund	0 FTE	0 FTE	0 FTE	2.4 FTE
<b>INSURANCE EXAMINATION FUND</b>				
<u>Costs - DIFP</u>				
Salaries	\$0	\$0	\$0	(\$55,085)
Fringe Benefits	\$0	\$0	\$0	(\$28,096)
Equipment and Expense	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>(\$3,143)</u>
<u>Total Costs - DIFP</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>(\$86,324)</u>
FTE Change - DIFP	0 FTE	0 FTE	0 FTE	.6 FTE
<b>ESTIMATED NET EFFECT ON INSURANCE EXAMINATION FUND</b>	<b><u>\$0</u></b>	<b><u>\$0</u></b>	<b><u>\$0</u></b>	<b><u>(\$86,324)</u></b>
Estimated Net FTE Change on the Insurance Examination Fund	0 FTE	0 FTE	0 FTE	.6 FTE
<u>FISCAL IMPACT - Local Government</u>	FY 2016 (10 Mo.)	FY 2017	FY 2018	Fully Implemented (FY 2019)
	<b><u>\$0</u></b>	<b><u>\$0</u></b>	<b><u>\$0</u></b>	<b><u>\$0</u></b>

### FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

### FISCAL DESCRIPTION

This proposal establishes the Standard Valuation Law that requires Missouri insurers providing life, accident and health, annuity and pure endowment, or specified deposit policies to meet minimum standards of valuation for their financial reserves based on the valuation manual adopted by the National Association of Insurance Commissioners.

The Director of the Department of Insurance, Financial Institutions and Professional Registration must annually value or cause to be valued the reserves for all outstanding contracts of every company issued on or after the operative date of the valuation manual. The proposal contains exceptions for valuation requirements for policies issued prior to the date of the valuation manual and specified time limitations based on the effective date of policies and the provisions of the proposal. Every insurer regulated by the department director must annually submit the opinion of the appointed actuary showing compliance with the valuation manual to the department director. The criteria for the actuarial opinion is specified in the proposal.

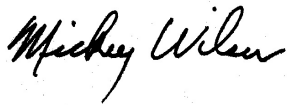
The proposal specifies the criteria for the confidentiality of the information used in the valuation opinion submitted to the department director by insurers. This information is exempt from the provisions of Chapter 610, RSMo, commonly known as the Sunshine Law, and may not be subject to subpoena and cannot be subject to discovery or be admissible in evidence in any private civil action.

The department director is authorized to use the confidential information in the furtherance of any regulator or legal action brought against the company as part of his or her official duties. Specified confidential information may be subject to subpoena for the purpose of defending an action seeking damages from the appointed actuary or may otherwise be released with the written consent of the company.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Insurance, Financial Institutions and Professional Registration  
Office of the Secretary of State  
Office of the State Treasurer  
Office of the State Courts Administrator



Mickey Wilson, CPA  
Director  
May 6, 2015

Ross Strobe  
Assistant Director  
May 6, 2015